

Message Text

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ACTION EB-07

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AMEMBASSY ABU DHABI

AMEMBASSY BEIRUT

AMEMBASSY BONN

AMEMBASSY DOHA

AMEMBASSY JIDDA

AMEMBASSY LONDON

AMEMBASSY MANAMA

AMEMBASSY OTTAWA

AMEMBASSY PARIS

AMEMBASSY RABAT

AMEMBASSY TEHRAN

AMEMBASSY TOKYO

USMISSION OECD PARIS UNN

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SUBJECT: SEPTEMBER UNDERWRITING AND BANKING NOTES

REF: (A) KUWAIT 3691 (NOTAL) (B) KUWAIT 3810 (NOTAL)

(C) KUWAIT 3878 (NOTAL)

1. AS WAS TRUE IN AUGUST, KUWAITI FINANCIAL INSTITUTIONS

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WERE SOMEWHAT LESS ACTIVE UNDERWRITING AND MANAGING EUROBOND

ISSUES IN SEPTEMBER. DURING THE MONTH ELEVEN NEW ISSUES WERE ANNOUNCED WITH KUWAITI PARTICIPATION, AND OF THESE THREE WERE MANAGED BY KUWAITI ORGANIZATIONS. NO NEW KUWAITI DINAR ISSUES WERE ANNOUNCED. (A KD 6 MILLION ISSUE FOR TVO POWER COMPANY OF FINLAND THAT WAS ADVERTISED IN SEPTEMBER WAS INCLUDED AMONG THOSE REPORTED IN REF A FOR AUGUST.)

2. THE SLOWDOWN ALMOST CERTAINLY WAS LARGELY RELATED TO A GENERAL REDUCTION IN ACTIVITY DURING THE SUMMER. OTHER FACTORS MAY HAVE ALSO HAD A ROLE, HOWEVER. SOME LARGER ISSUES HAVE BEEN ANNOUNCED, AND AS INDIVIDUAL ISSUES INCREASE IN SIZE THE TOTAL NUMBER OF NEW EUROBOND ISSUES IS EXPECTED TO GO DOWN, ACCORDING TO INVESTMENT ADVISORS HERE. FOR THE FIRST TIME WE HAVE BEGUN TO HEAR THAT THE GOK MAY BE CUTTING BACK ON PLACING FUNDS IN EUROBONDS, APPARENTLY REFLECTING REDUCED INCOME WHICH IN TURN IS A RESULT OF SIGNIFICANT REDUCTIONS IN OIL PRODUCTION IN 1975.

3. KUWAITI INSTITUTIONS CONTINUE TO PREFER THE RELATIVELY SHORTER MATURITIES OF EUROISSUES, AND WE KNOW OF NO WHOLESALE SHIFT TO THE US SECURITIES MARKET. HOWEVER, STRONG PERFORMANCE OF THE US DOLLAR IS BEING REFLECTED IN A PREFERENCE ALSO FOR CANADIAN DOLLAR ISSUES IN THE EURO MARKET. THIS SHIFT IS ALSO A RESULT OF HIGHER INTEREST RATES AND THE NON-EXISTENCE OF NEW DEUTSCHE MARK ISSUES. IN SEPTEMBER TWO MAJOR MOROCCAN ISSUES WERE ANNOUNCED, A SAUDI RIYAL 100 MILLION ISSUE FOR THE MOROCCAN DEVELOPMENT BANK AND A \$200 MILLION ISSUE WHICH KUWAIT FOREIGN TRADING CONTRACTING AND INVESTMENT COMPANY CO-MANAGED. THESE ISSUES COINCIDENTALLY OCCURRED AT THE SAME TIME THE KUWAIT FUND FOR ARAB ECONOMIC DEVELOPMENT ANNOUNCED MAJOR LOANS FOR MOROCCO (REF B).

4. KUWAITI ACTIVITY IS LIKELY TO INCREASE THIS FALL. A NUMBER OF NEW FINANCIAL INSTITUTIONS HAVE BEEN ANNOUNCED, AND CHASE AND BANKAMERICA WILL OWN MINORITY SHARES IN TWO OF THEM (REF C). ONE NEW COMPANY HAS BEEN FORMED TO INVEST IN MALAYSIA.

5. ON THE BANKING SIDE, THERE HAVE BEEN SIGNS THAT TIGHT SITUATION THAT PREVAILED EARLIER THIS YEAR HAS ENDED AND LIMITED OFFICIAL USE

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LOCAL BANKS ARE NOW RATHER LIQUID. THIS REFLECTS LESS LOCAL BORROWING FOR REAL ESTATE PROJECTS AND REDUCED STOCK MARKET ACTIVITY FOLLOWING GOVERNMENT NATIONALIZATION OF THE PRIVATE SHARE OF KUWAIT NATIONAL PETROLEUM COMPANY. IN ADDITION, THE PROPORTION OF FOREIGN ASSETS OF LOCAL PRIVATE BANKS HAS GONE SLIGHTLY DOWN. IN MARCH 1974, FOR EXAMPLE, OF SOME KD 850 MILLION (KD1 - \$3.50) IN TOTAL ASSETS, THE BANKS OWNED ABOUT KD 450 MILLION IN FOREIGN ASSETS, SLIGHTLY MORE THAN

HALF OF THE TOTAL. AS OF JUNE 1975, HOWEVER, TOTAL ASSETS WERE ALMOST KD1.1 BILLION WHILE FOREIGN ASSETS WERE LESS THAN HALF THAT FIGURE, KD 527 MILLION.

6. ONE INTERESTING FEATURE OF CURRENT BANKING ACTIVITY INVOLVES FOREIGN, INCLUDING AMERICAN, COMPANIES THAT HAVE WON LARGE CONTRACTS COVERING THEIR EXCHANGE RISKS. THERE IS, OF COURSE, NO FORWARD MARKET IN KDS, BUT THE ARRANGEMENT THAT HAS BEEN WORKED OUT IS TO HAVE LOCAL BANKS LEND FOREIGN COMPANIES WHATEVER THE TOTAL VALUE OF THEIR CONTRACT IS IN KDS. THE COMPANIES IMMEDIATELY CONVERT THE KDS TO DOLLARS, AND AS THE GOK OR OTHER CONTRACTING PARTY MAKES ITS PAYMENTS IN KDS, THE COMPANIES PAY-OFF THEIR LOANS TO THE BANKS. IN THIS MANNER THE FOREIGN COMPANIES IMMEDIATELY HAVE DOLLARS AND THE LOCAL BANKS HAVE DINAR LOANS ON THEIR BOOKS WHICH THEY PREFER TO HOLDING FOREIGN ASSETS.

7. COMMENT: WHILE KUWAITI ACTIVITY BY ITSELF MAY NOT BE ESPECIALLY SIGNIFICANT, IF SIMILAR STEPS ARE TAKEN IN IRAN, SAUDI ARABIA AND ELSEWHERE IN THE REGION AS LARGE PROJECTS ARE IMPLEMENTED, THE ACTIVITY AS A WHOLE COULD AFFECT DOLLAR MOVEMENTS TO A DEGREE NOTICEABLE ON INTERNATIONAL MARKETS. STOLTZFUS

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